

Message Text

PAGE 01 STATE 219005

62

ORIGIN XMB-04

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DRAFTED BY EXIMBANK:TKINGSLEY:NR

APPROVED BY ARA/APU:JMSMITH, JR.

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FM SECSTATE WASHDC

TO AMEMBASSY BUENOS AIRES

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TAGS: EFIN, AR

SUBJECT:CAFIERO MEETING WITH EXIMBANK CHAIRMAN CASEY,

--- SEPT. 3

1. THE FINANCE MINISTER OPENED HIS DISCUSSION BY SUMMARIZING THE RECENT POLITICAL BACKGROUND IN ARGENTINA. HE NOTED THAT THE COUNTRY HAD A DEMOCRATIC GOVERNMENT BEGINNING IN 1973 WITH THE GENERAL ELECTIONS AFTER SOME YEARS OF MILITARY GOVERNMENT AND THAT ARGENTINE POPULATION IN GENERAL WAS VERY ANXIOUS TO PRESERVE THE DEMOCRATIC INSTITUTION. HE NOTED THAT THERE WERE STRONG FORCES AT WORK TO OVERTHROW THE SYSTEM, NAMELY LEFTIST OUTSIDERS FROM OTHER LATIN AMERICAN COUNTRIES AS WELL AS FROM ARGENTINA AND THERE HAD BEEN CONSIDERABLE VIOLENCE FOR THIS REASON. HE SAID THAT THE ARMED FORCES WERE DETERMINED TO MAINTAIN ORDER AND PRESERVE THE DEMOCRATIC SYSTEM AND NOT INTERFERE IN POLITICS.

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PAGE 02 STATE 219005

2. THE CHAIRMAN ASKED THE FINANCE MINISTER WHAT WAS HIS GENERAL ECONOMIC PLAN IN LIGHT OF EXISTING ECONOMIC PROBLEMS.

3. THE FINANCE MINISTER REPLIED THAT THE GOVERNMENT IN 1973 HAD INHERITED A HIGH RATE OF INFLATION, A LARGE FOREIGN DEBT, MUCH OF WHICH WAS SHORT TERM, AND A LARGE BUDGET DEFICIT. THE GOVERNMENT AT THAT TIME HAD IMPOSED

A PRICE FREEZE AND HAD TAKEN OTHER ACTIONS TO CONTROL INFLATION. HE SAID THAT 1973 WAS A VERY GOOD YEAR FOR EXPORTS, THAT EXCHANGE RESERVES HAD INCREASED AND THE RATE OF INFLATION HAD DECLINED. HE CONTINUED THAT 1974 WAS ALSO A GOOD YEAR, BUT THAT PROBLEMS AROSE BECAUSE OF THE PRICE FREEZE WHICH SHOULD HAVE ONLY LASTED SEVERAL MONTHS. THE ECONOMIC SITUATION LITERALLY EXPLODED IN EARLY 1975 WITH THE RESULT THAT INFLATION INCREASED RAPIDLY, EXPORTS DECLINED, THE RESERVE POSITION DETERIORATED AND THE BUDGET DEFICIT SHARPLY INCREASED.

4. HE CONTINUED THAT THE 1973 AGREEMENT BETWEEN LABOR AND BUSINESS TO REGULATE WAGES FELL APART BECAUSE OF RISING INFLATION AND THAT IN JUNE 1975 THE NEW FINANCE MINISTER TRIED TO CORRECT THESE VARIOUS PROBLEMS BY SHOCK TREATMENT. THE MASSIVE DEVALUATION AND SHARPLY RISING PRICES CAUSED LABOR TO DEMAND WAGE INCREASES OF AROUND 150 PERCENT WHICH THE GOVERNMENT GRANTED.

5. THE MINISTER CONTINUED THAT HE WAS MAKING A GRADUAL ATTACK ON THESE PROBLEMS AND WOULD MAINTAIN A REALISTIC EXCHANGE RATE THROUGH FREQUENT SMALL DEVALUATIONS IN LINE WITH INFLATION AND BY PUSHING EXPORTS AND REDUCING THE BUDGET DEFICIT.

6. (THE CHAIRMAN WAS OBLIGED TO LEAVE FOR A MEETING AT THE WHITE HOUSE AT THIS POINT.)

7. HE SAID HIS TECHNICAL STAFF WOULD BE PLEASED TO MEET WITH EXIMBANK STAFF TO DISCUSS IN GREATER DETAIL HIS ECONOMIC PROGRAM. MR SAUER INDICATED THAT
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PAGE 03 STATE 219005

MR. O'CONNOR AND MR. KINGSLEY WOULD MEET WITH HIS TECHNICAL PEOPLE ON FRIDAY, SEPTEMBER 5, 1975. THE MINISTER STRESSED THAT ARGENTINA'S PROBLEMS WERE STRICTLY SHORT TERM AND THAT CONSIDERABLE FINANCIAL ASSISTANCE WAS NEEDED BY HIS GOVERNMENT DURING THE REMAINDER OF 1975. HE SINCERELY HOPED THAT EXIMBANK WOULD CONTINUE TO SUPPORT SYMPATHETICALLY HIS GOVERNMENT DURING THIS CRITICAL PERIOD.

8. THE MINISTER ALSO POINTED OUT THAT HE HOPED TO OBTAIN ABOUT DOLS 200 MILLION IN ASSISTANCE FROM THE IMF FROM ITS OIL FACILITY AND THE COMPENSATORY EXPORT ASSISTANCE

PROGRAMS. HE SAID TOO THAT HE WAS NEGOTIATING WITH NEW YORK BANKS FOR NEARLY DOLS 400 MILLION IN ASSISTANCE AND ABOUT DOLS 100 MILLION DISBURSEMENTS FROM THE IDB (TOTAL DOLS 700 MILLION).

9. HE SAID THAT EXPORTS THIS YEAR WOULD TOTAL ABOUT DOLS 3.2 BILLION AND NOTED THAT THERE HAD BEEN A SEVERE LOSS OF FOREIGN EXCHANGE DUE TO THE EEC BAN ON ARGENTINE BEEF EXPORTS WHICH COST ARGENTINA ABOUT DOLS 400 MILLION THIS YEAR.

10. MR. SAUER STATED THAT EXIMBANK HAD CONTINUED TO AUTHORIZE NEW TRANSACTIONS FOR ARGENTINA UNTIL THE PAST SEVERAL WEEKS. HE THEN ASKED THE MINISTER WHETHER ARGENTINA COULD HANDLE EXTERNAL DEBT PAYMENTS DURING THE REMAINDER OF THIS YEAR.

11. THE MINISTER REPLIED THAT THE 1975 BALANCE-OF-PAYMENTS GAP WAS AROUND DOLS 600 MILLION AND THAT HE WAS OPTIMISTIC THAT ARGENTINA COULD MEET THIS PROBLEM THROUGH THE FINANCIAL ASSISTANCE UNDER DISCUSSION WHICH HE HAD ALREADY OUTLINED. HE EXPRESSED THE VIEW THAT NEXT YEAR WOULD CERTAINLY BE A BETTER YEAR FOR ARGENTINA. IN THIS CONNECTION, HE INDICATED THAT HE HAD REQUESTED FROM THE TREASURY A SWAP ARRANGEMENT OF DOLS 200 MILLION. HE EMPHASIZED THAT THE ATTITUDE TOWARD ARGENTINA OF THE EXIMBANK HAS AN IMPORTANT IMPACT ON THE FINANCIAL COMMUNITY. KISSINGER

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